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Report of activities, 1939-1940

American Institute of Accountants

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Report of Activities

1939-1940



THE AMERICAN INSTITUTE OF ACCOUNTANTS

Report of Activities

1939-1940



THE AMERICAN INSTITUTE OF ACCOUNTANTS
13 EAST FORTY-FIRST STREET, NEW YORK, N. Y.

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American Institute of Accountants

FOREWORD



THE MATERIAL in this booklet has been drawn from the annual reports for the year 1939-1940 of the secretary of the Institute and the report of council to the membership, both presented at the annual meeting in Memphis in October, 1940.

The contents of these reports can logically be grouped under three headings: A report on the condition of the organization itself; a summary of the Institute's accomplishments on behalf of the entire accounting profession in the fields of professional standards, legislation, coöperation with other groups, and special projects; and a review of the organization's direct services to its members, such as providing them with useful information, coöperating in arrangements for regional and other meetings, and performing services of various types.

The following information is presented with this arrangement in mind.

JOHN L. CAREY, *Secretary*



“ . . . to unite the accountancy profession of the United States of America; to promote and maintain high professional and moral standards; to assist in the maintenance of high standards for the certified public accountant certificate in the several states; to safeguard the interests of public accountants; to advance the science of accountancy; to develop and improve accountancy education; to provide for the examination of candidates for membership; and to encourage cordial intercourse among accountants practising in the United States of America.”

From article I, section 1, of the
by-laws of the American Institute
of Accountants.

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THE AMERICAN INSTITUTE OF ACCOUNTANTS

MEMBERSHIP

MEMBERSHIP at August 31, 1940, was 4,307 members and 1,130 associates, a total of 5,437. Due largely to efforts of the special committee on membership, the number of new members and associates was 396, the largest of any year since the merger of the two national organizations in 1936. Losses from death, nonpayment of dues, resignations, and one suspension were 143, making a net gain of 253.

FINANCES

For 1939-1940, total consolidated income was \$240,521.06 (of which \$115,601.08 consisted of dues of members and associates), and expenses were \$223,212.45, an excess of income over expenses for the year of \$17,308.61, of which \$11,503.19 was credited to the contingency fund, now totaling \$19,421.44.

SERVICES TO THE PROFESSION

EACH YEAR sees some more or less spectacular achievement by the Institute, but these more dramatic incidents should not be permitted to overshadow the basic, routine, day-to-day accomplishments of the organization. Emergencies must, of course, be met as they arise, but the main objective is to render continuous service to so many people, and to do so many useful things in so great a variety of fields that practically every certified public accountant in the United States will sooner or later

encounter in his own personal experience the effects of the Institute's work.

PROFESSIONAL STANDARDS

The rules of professional conduct have been completely revised by the committee on professional ethics, and the council has adopted a new version, which has been approved by mail vote of a majority of the membership and will be published in the 1940 Yearbook. The committee, in the past year, considered 21 complaints, and 58 inquiries. Its findings in these matters were of such interest and importance that the council ordered the report of the committee, submitted at the May meeting, published and distributed to the members. Council has resolved that the committee on professional ethics investigate all matters, however reported, based on professional acts of an individual accountant or firm of accountants, which might in the judgment of the ethics committee affect the profession adversely.

The committee met with the Securities and Exchange Commission, all the members of which were present, in June, and presented a statement on "Professional Disciplinary Procedures," which was published in *The Journal of Accountancy* for July, 1940.

EXAMINATIONS

It is gratifying to announce federal government recognition of the Institute's examinations in accounting theory and practice, which have been adopted by the committee on enrolment and disbarment of the United States Treasury Department in examination of applicants for admission to practice before the Department who are neither attorneys nor certified public accountants.

Yet it is more significant that 45 state and territorial accountancy boards continue to adopt the Institute's examinations year after year, of which 32 also submit the candidates'

papers for grading by Institute examiners. About 1,700 candidates a year sit for these examinations, which are a strong pillar of high professional standards.

RESEARCH

Technical standards are also important. The great number of members who subscribed to the expenses of the research department for the first eighteen months of its existence indicated a wide belief in the need for such an agency to assist the committee on accounting procedure in the preparation of pronouncements or opinions on matters of accounting procedure.

The research bulletins already published, special studies by the committee published in *The Journal of Accountancy*, and a number of advisory opinions rendered to the Securities and Exchange Commission demonstrate how greatly the department has expedited this work. It is gratifying that the expense of operating the research department has been absorbed in the regular budget of the general fund for 1940-1941, in accordance with the hope expressed when subscriptions were sought to organize the department in the spring of 1939.

ACCOUNTING PROCEDURE

The committee on accounting procedure, assisted by the research department, published accounting research bulletins on foreign operations and foreign exchange; unamortized bond discount; quasi-reorganizations; depreciation on appreciation; and comparative statements. The committee also advised the Securities and Exchange Commission on a number of questions of accounting procedure in proposed releases of the Commission. A tentative statement on inventories appeared in *The Journal of Accountancy* for October, 1940. Subcommittees are conducting critical studies of *A Statement of Accounting Principles*, by Sanders, Hatfield and Moore, and *An Introduction to Corporate Accounting Standards*, by Paton and Littleton.

AUDITING PROCEDURE

The committee on auditing procedure has gathered together much data on experiences with extensions of auditing procedure, as adopted last year, and is engaged in a revision of the bulletin, *Examination of Financial Statements by Independent Public Accountants*, which will probably be published sometime in 1941. The committee has also advised the S.E.C. on a number of questions involving auditing procedure in proposed releases of the Commission.

COÖPERATION WITH OTHERS

Another field of effort which provides opportunity both for constructive accomplishment and for public information is coöperation with bankers, lawyers, credit men, stock exchanges, and other organizations with common interests. In the past year the Institute has been in close touch with these groups. Several interesting meetings have been held. The president of the New York Stock Exchange, a vice president, and the chairman and members of its committee on stock list met with an Institute committee at dinner. The chairman and members of the Securities and Exchange Commission, and its chief accountant, have met with several committees of the Institute. Officers and committee members of bankers' organizations have also met with Institute representatives.

The American Accounting Association, representing the teachers of accounting, is another group with which even closer relations have been developed by the Institute in the past year. Teachers of accounting are, of course, a part of the profession, and many of them are members of the Institute. It may seem inappropriate to refer to them as a group with which the Institute maintains official relations, as with an outside body. Yet teachers have so great an influence over the students from among whom the profession must obtain its recruits, and may make such a substantial contribution to technical research and clarification of accounting theory, that the Institute has

considered it wholly desirable to exchange views and work with the organized association of accounting instructors. A coöperative venture of the past year was the distribution of the monograph, *An Introduction to Corporate Accounting Standards*, by Paton and Littleton, published by the American Accounting Association.

PUBLIC INFORMATION

Education of the public, as well as of the profession, is recognized as an obligation of the Institute. The present public-information program fills a need of which the members have been growing more and more aware. Through the speakers' bureau, a steadily increasing volume of publicity in the press, and wide distribution of specially prepared public-information pamphlets (of which 195,163 copies were circulated last year), information which the profession wants the public to have is being transmitted.

The public-information program is necessarily closely related to the regular activities of the Institute. Much of the committee work by its very nature results in public information and all publicity must, of course, be based upon achievement.

SAVINGS AND LOAN AUDITS

For example, 5,000 copies of the Institute's program of audit of savings-and-loan associations have been transmitted by the president of the United States Savings and Loan League to the members of that organization with a letter commending the program to their attention. Clearly, this is a most excellent example of useful public information.

TAXATION

When the chairman of the Institute's committee on federal taxation testified before the Senate finance committee so effectively that New York newspapers reported the government tax

experts favorably impressed, the Institute received an almost priceless contribution to good public relations.

Accounting is such an important factor in income and excess-profits taxation that certified public accountants can render highly valuable assistance in formulation of the statutes. The Institute's committees in recent years have been notably successful in accomplishing that purpose.

INVESTMENT COMPANY BILL

A noteworthy accomplishment of the past year was the Institute's successful opposition to a provision of the investment-trust bill, which in its original form would have extended to unprecedented lengths government control over the scope of audits and the procedure followed by independent certified public accountants. Appearances of Institute representatives before a Senate committee and the Securities and Exchange Commission resulted in amendment.

NATIONAL DEFENSE

The Institute has offered its full coöperation to the Advisory Commission to the Council of National Defense, and has created a special committee on national defense whose members have indicated willingness to act as a liaison between the government and the accounting profession when the need arises. A questionnaire to the members resulted in a register of about 500 members, who volunteered their services without pay in an emergency. It was suggested to state society presidents that the services of members of the profession be offered to governors as members of selection boards and appeal boards under the selective-service act.

NATURAL BUSINESS YEAR

The special committee on natural business year reports about 14,000 changes to natural fiscal years by corporations

since the beginning of the Institute's aggressive campaign in 1935. In that period more than 180,000 pieces of literature have been distributed on the subject. In the past year the Securities and Exchange Commission issued a release approving the principle of the natural business year. The enlarged committee is organizing local efforts, in coöperation with state societies, in behalf of the natural year.

COMPETITIVE BIDDING

A statement discouraging the practice of competitive bidding for audit engagements was released by the executive committee last December; 5,515 copies have been distributed.

DIRECT SERVICES TO MEMBERS

PUBLICATIONS

THE DISTRIBUTION of publications is very impressive, as the following tabulation for the fiscal year 1939-1940 indicates:

The Journal of Accountancy. Latest Audit Bureau of Circulation report shows circulation of 14,169, including 8,732 nonmembers of the Institute.

The Certified Public Accountant. Circulation at close of fiscal year was 6,075, including 638 nonmember subscriptions.

Proceedings of the Annual Meeting, 1939. A book of 295 pages, of which 9,986 copies were distributed; 5,456 gratis to the membership, and 4,530 sold at a price of \$1.00 each.

An Introduction to Corporate Accounting Standards, by Paton and Littleton, published by the American Accounting Association and distributed by the Institute in coöperation with the Association; 6,371 copies were distributed without charge to members of the two organizations; 2,517 copies have been sold at \$1.00 each, just about sufficient to pay the cost of publication and distribution of the entire edition.

Distribution of other publications during the past year was as follows:

	Number of copies	
	Gratis	Sales
Audits of Savings and Loan Associations	5,501	5,357
Examination of Financial Statements	68	9,417
Examination Questions — pamphlets	17	1,260
Examination Questions 1936-1938	41	1,802
Extensions of Auditing Procedure (rev.)	23,033	7,331
A Statement of Accounting Principles	6	1,201
Yearbooks	5,468	72
Research Bulletins	25,499	5,086

The numerous references to publications of the Institute in reports of official bodies and theses and articles on accounting subjects indicate the wide influence of this educational work.

LIBRARY

The library and bureau of information are, of course, also educational agencies; 7,809 visitors have entered the library in the past year, 14,820 questions have been answered, and 4,869 books have been lent to members. The librarians, too, have produced the Fifth Supplement to the *Accountants' Index*, which appeared in November.

STATE SOCIETIES

Essential, if the Institute is to work with maximum effectiveness, is close coöperation with the state societies of certified public accountants and close coördination of their efforts with those of the Institute. There must be continuous interchange of thought and information between the state and national organizations if the profession is to utilize its powers most effectively.

For one thing, the majority of the members of most state

societies are also members of the Institute. The national organization can serve its members by helping the state societies to serve them. In a great many ways it is possible for the Institute to help the state society in planning, organizing, and executing special projects.

The state societies are of tremendous assistance to the Institute as a source of information and advice which accurately reflects a cross section of professional opinion throughout the nation.

The state societies are also invaluable as agencies for the distribution of information and recommendations submitted by the Institute.

The formal affiliation between state and national groups provided by the Advisory Council of State Society Presidents, and the close working relationship between Institute headquarters and state society and chapter officers, makes it now possible for the entire organized profession of certified public accountants to think about and act upon the same problem at the same time.

Institute headquarters have been continually in touch with state society officers during the past year. There have been seventeen mailings through the Information Clearing House Service, through which state society bulletins, Institute committee reports, and other material of interest are distributed to state society and chapter presidents. In addition there have been twenty-six special communications from the Institute to state societies dealing with coöperation with bankers, tax legislation, public information, the bulletin "Accounting and Your Pocketbook," natural business year, and other subjects.

REGIONAL CONFERENCES

The staff of the Institute coöperated with state societies of certified public accountants in arranging the Southern States Accountants' Conference at New Orleans; and the New England Accounting Conference at Boston, both held last spring, and also in arrangements for accounting clinics at State

College, Pennsylvania, under the auspices of the Harrisburg Chapter of the Pennsylvania Institute of Certified Public Accountants and Pennsylvania State College; and at Indianapolis, under the auspices of Butler University and the Indiana Association of Certified Public Accountants.

TRIPS BY OFFICERS

The president, vice presidents, and secretary of the Institute have delivered addresses at 30 meetings of state societies and other groups during the year.